



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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**State Auditor Mosiman Reviews Final Action Fiscal Year 2014 Budget**

(Des Moines, Iowa) – State Auditor Mary Mosiman, in fulfilling her duty as the “Taxpayers’ Watchdog” to report directly to the people of Iowa on the condition of the State’s finances, has completed her review of the Final Action Fiscal Year 2014 budget. Mosiman said, “The first rule of fiscal sustainability is to not spend more than you take in, and this budget delivers in that regard. This budget is significant because it virtually erases the spending gap that has existed for years in our State’s budgets.”

**Final Action Budget Continues to Reduce Reliance on One-Time Monies**

Auditor Mosiman said, “The poor budgeting practice of shifting ongoing General Fund costs to one-time or limited-time monies has been severely curtailed. The Fiscal Year 2014 adopted budget reduces the reliance on one-time monies to just \$36 million – a huge improvement over past years.”

However, Auditor Mosiman added, “While there is a lot to commend about this budget, we continue to take steps back in terms of transparency-related shifts, or shifting ongoing General Fund costs to other ongoing revenue sources. This budget increases shifts that impact transparency by \$129 million, which will distort comparisons with previous years. Transparent budgets are a key goal of following sound budgeting practices, and we can do better.”

**Improved Revenues and Fiscal Discipline Nearly Eliminate Spending Gap**

The Final Action Fiscal Year 2014 budget reduces the spending gap from \$764 million in Fiscal Year 2011 to under \$17 million in Fiscal Year 2014. Auditor Mosiman said two factors led to the dramatic, three-year reduction in the spending gap—8.8% average annual revenue growth with modest, 2.9% average annual spending growth. Mosiman said, “The Final Action budget reflects a continued focus on long-term sustainability of services instead of only thinking about the next year. For the first time in years, Iowans have a budget that does not spend more than it takes in on an ongoing basis.”

## Looking to the Future

Mosiman noted two laws will have substantial fiscal impacts years into the future – the property tax reform law and the education reform law. Auditor Mosiman warned provisions in each law have a delayed fiscal impact followed by multi-year accelerating commitments.

While the property tax reform law represents a large tax cut to property taxpayers, the law also requires the State to begin making appropriations to local governments beginning in Fiscal Year 2015. These appropriations grow to \$383 million by Fiscal Year 2024. Mosiman said, “There is no doubt property tax reform will provide relief to property taxpayers. We just need to be mindful of the State’s future obligations resulting from this reform.”

The education reform law creates an appropriation of \$1.5 million in Fiscal Year 2016 for a Teach Iowa Scholar Program which grows to \$40 million by Fiscal Year 2022. Mosiman said, “Fiscal Year 2022 seems far away, but we need to be remember the commitments we made in 2013 and have adequate resources available to honor those commitments.”

## Concerns and Challenges Ahead

Mosiman noted the Final Action budget potentially underfunds Medicaid by \$31 million. Mosiman said, “I realize Medicaid spending is a moving target, but it is a best budgeting practice to use the best estimate available. This budget falls \$31 million short of the best reported estimate for Medicaid.”

Salary and benefit cost increases are not separately funded in the Final Action budget, which means agencies will have to absorb any increased costs within their existing appropriations. This will be the fifth consecutive year salary and benefit cost increases have not been separately funded. Auditor Mosiman said, “If this practice continues without offsetting agency efficiencies, these salary and benefit cost increases will continue to adversely affect the level of service agencies can provide.”

Iowa’s pension systems have seen their unfunded actuarial liability grow in the past several years. Mosiman said, “Our State’s largest pension plan, IPERS, is only 80% funded according to the most current information available, versus 98% funded in 2000. The State’s other pension plans are funded at even lower levels. The State needs to address the sustainability of pensions to ensure commitments to public servants are honored while being fair to the taxpayers.”

There will be considerable pressure on revenues and spending in Fiscal Year 2014 and beyond as a result of Federal actions. Mosiman noted, “The State is essentially an equal partner with the Federal government in terms of delivering services to Iowans. As the Federal government gets its fiscal house in order, we can reasonably expect a decline in Federal dollars coming to the State. When that happens, we need to be prepared.”

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**Auditor of State  
Mary Mosiman**

***Comments on the  
Final Action Fiscal Year 2014 Budget***

**August 5, 2013**

# **State of Iowa FY14 General Fund Budget**

Remarks today will focus on—

- A Review of the Numbers – Sustainability Improvement Continues
- Concerns Noted
- FY14 and Beyond Challenges

# **State of Iowa**

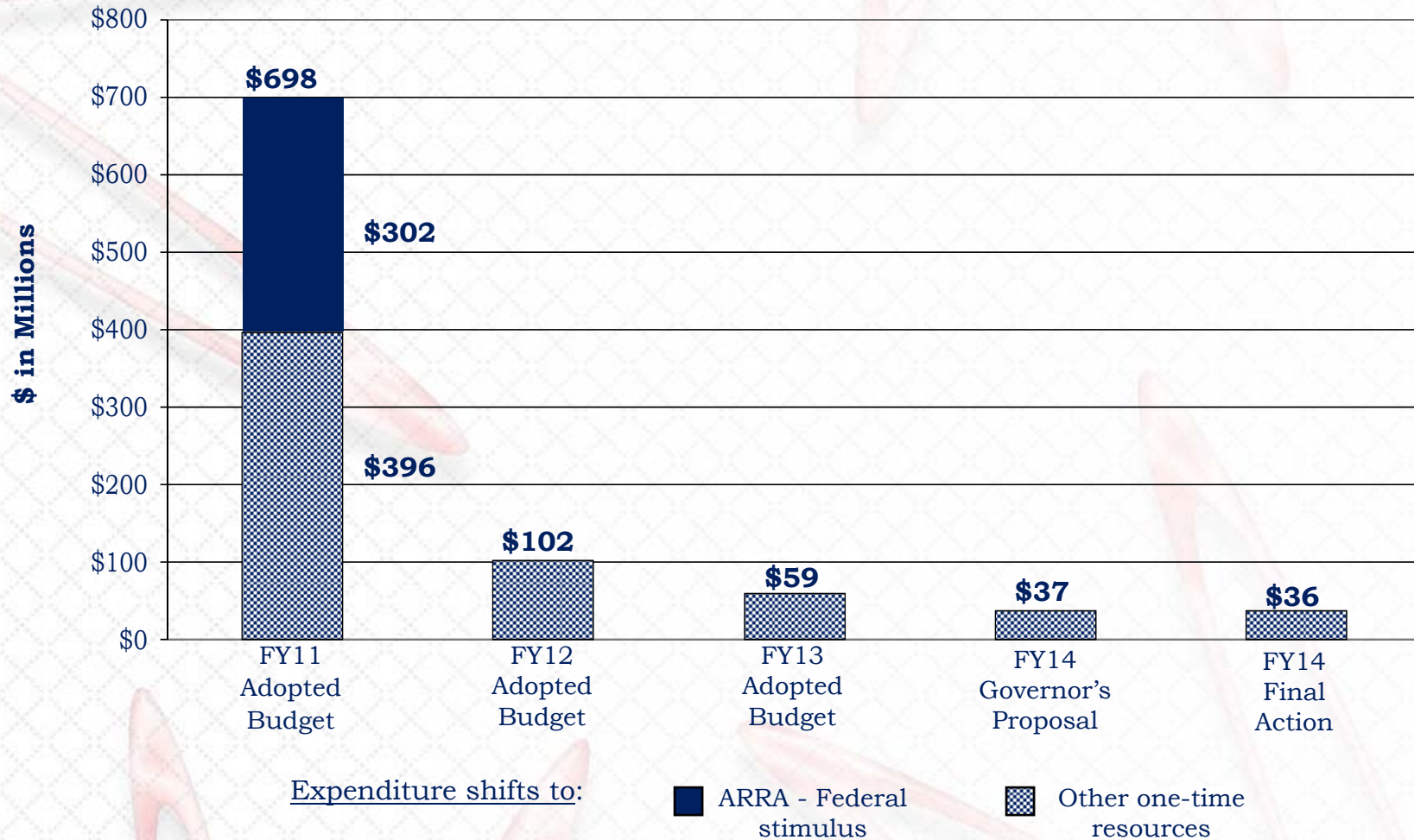
## **Sound Budgeting Principles**

Following sound budgeting principles produces budgets which are—

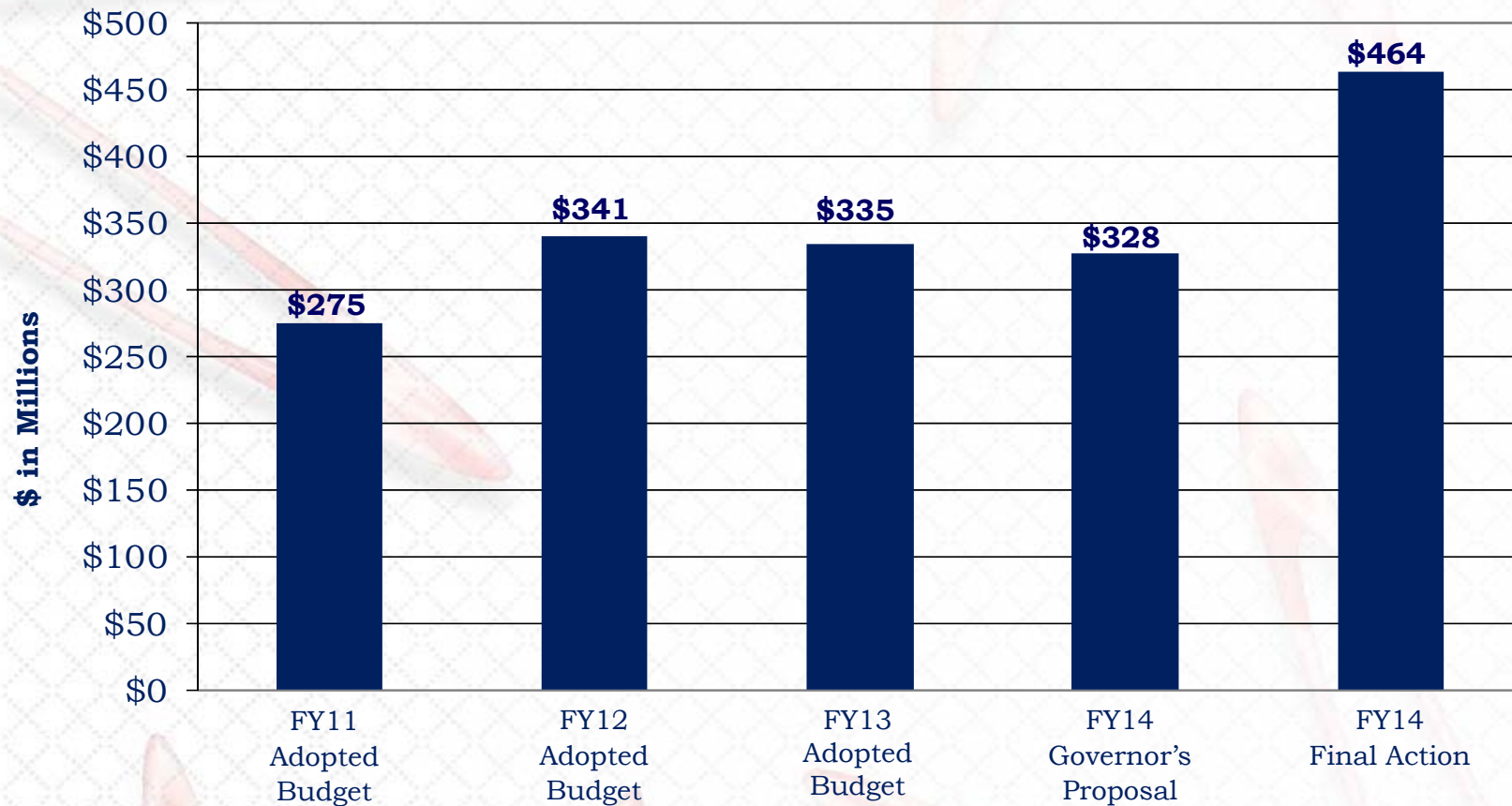
- complete
- transparent
- sustainable



# State of Iowa FY14 General Fund Budget Shifts that Impact Sustainability



# State of Iowa FY14 General Fund Budget Shifts that Impact Transparency



# State of Iowa

## FY14 General Fund Budget

### A Review of the Numbers

(\$ in Millions)

	Adopted Budget			Governor's Proposal	Final Action
	FY11	FY12	FY13	FY14	FY14
Available ongoing revenues	\$5,533	\$6,226	\$6,508	\$7,119	\$6,995
True total expenditures	6,297	6,446	6,669	6,909	7,012
(Spending gap) surplus revenues	<u>(\$764)</u>	<u>(\$220)</u>	<u>(\$161)</u>	<u>\$210</u>	<u>(17)</u>
(Spending gap) surplus revenues as a % of available ongoing revenues	<u>(13.8%)</u>	<u>(3.5%)</u>	<u>(2.5%)</u>	<u>2.9%</u>	<u>(0.2%)</u>



# State of Iowa

## FY14 General Fund Budget

### A Review of the Numbers - Revenues

(\$ in Millions)

	Adopted Budget			Governor's Proposal	Final Action
	FY11	FY12	FY13	FY14	FY14
Available ongoing revenues	\$5,533	\$6,226	\$6,508	\$7,119	\$6,995
Revenue increase comparison:					
Amount	\$29	\$693	\$282	\$611	\$487
Percentage	0.5%	12.5%	4.5%	9.4%	7.5%
Average annual percentage increase from FY11 through FY14					8.8%

# State of Iowa

## FY14 General Fund Budget

### A Review of the Numbers - Expenditures

(\$ in Millions)

	Adopted Budget			Governor's Proposal	Final Action
	FY11	FY12	FY13	FY14	FY14
True total expenditures	\$6,297	\$6,446	\$6,669	\$6,909	\$7,012
Underfunded school aid	156	—	—	—	—
Adjusted comparison	<u>\$6,453</u>	<u>\$6,446</u>	<u>\$6,669</u>	<u>\$6,909</u>	<u>\$7,012</u>
Spending increase (decrease) —adjusted comparison:					
Amount	<u>\$313</u>	<u>(\$7)</u>	<u>\$223</u>	<u>\$240</u>	<u>\$343</u>
Percentage	<u>5.1%</u>	<u>(0.1%)</u>	<u>3.5%</u>	<u>3.6%</u>	<u>5.1%</u>
Average annual percentage increase (decrease) from FY11 through FY14					<u>2.9%</u>

# State of Iowa

## FY14 General Fund Budget

### A Review of the Numbers – Spending Gap (\$ in Millions)

#### FY11 Spending Gap

FY12: Available ongoing revenues increase 693  
 FY11 School aid not funded (156)  
 True total expenditures decrease 7

**\$(764)**

71%  
reduction

#### FY12 Spending Gap

FY13: Available ongoing revenues increase 282  
 True total expenditures increase (223)

**(220)**

27%  
reduction

#### FY13 Final Action Spending Gap

FY14: Available ongoing revenues increase 487  
 True total expenditures increase (343)

**\$(161)**

89%  
reduction

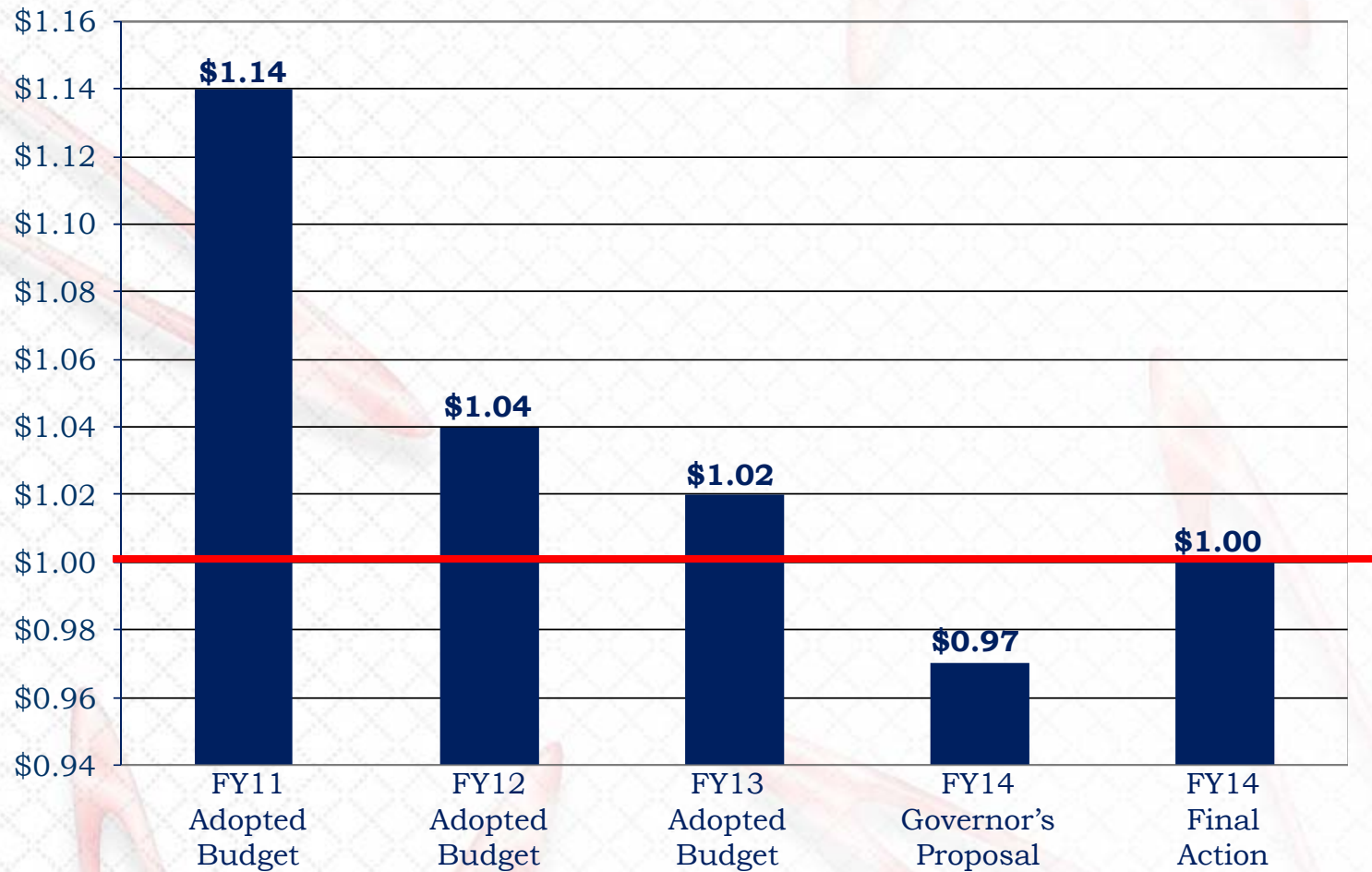
#### FY14 Final Action Spending Gap

**\$(17)**



# State of Iowa FY14 General Fund Budget Spending Sustainability

*For every dollar of available ongoing revenues, Iowa is spending:*





# **State of Iowa**

## **FY14 General Fund Budget**

### **A Look to the Future**

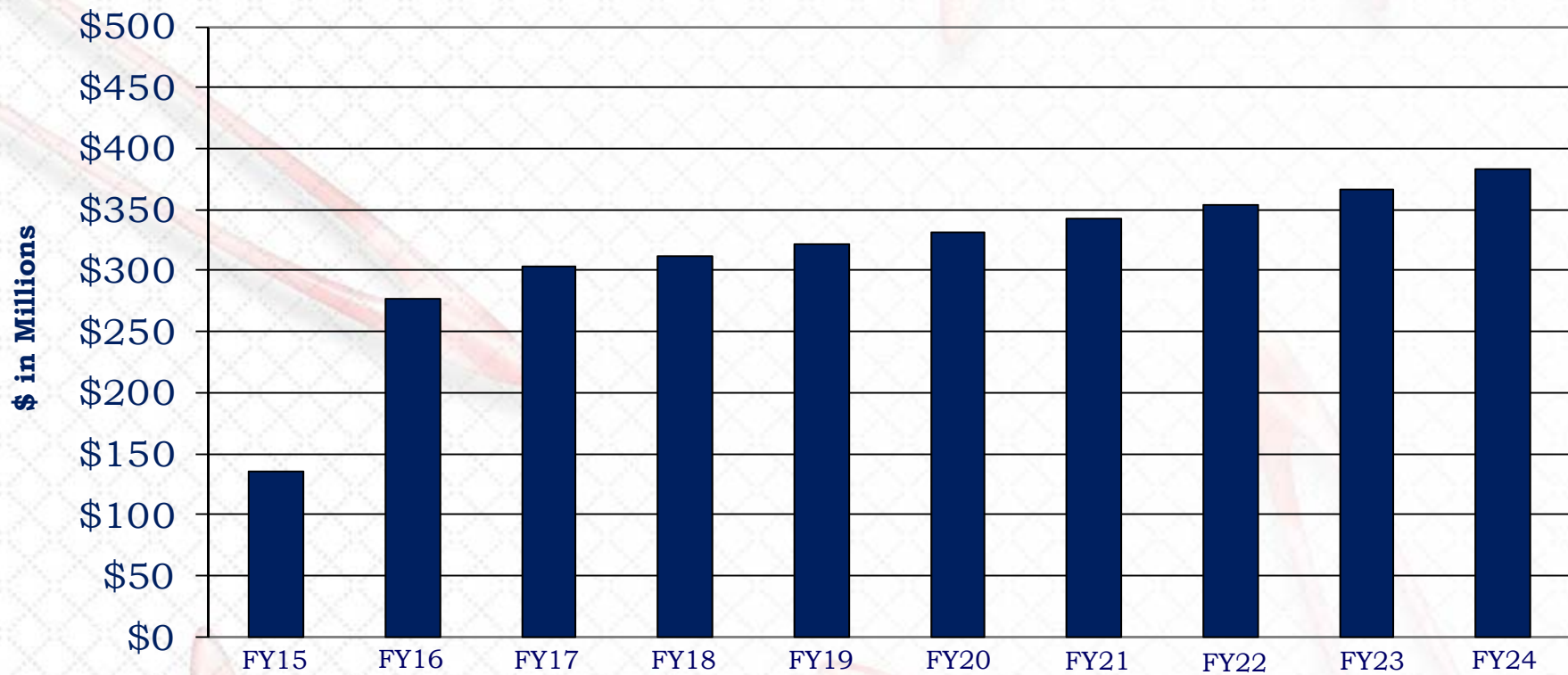
- Two new laws make huge impacts, but also create substantial fiscal commitments in future years:
  - Property Tax Reform
  - Education Reform
- Lawmakers need to plan for the future impacts from these laws:
  - Delayed fiscal impact
  - Multi-year, accelerating commitments

# State of Iowa

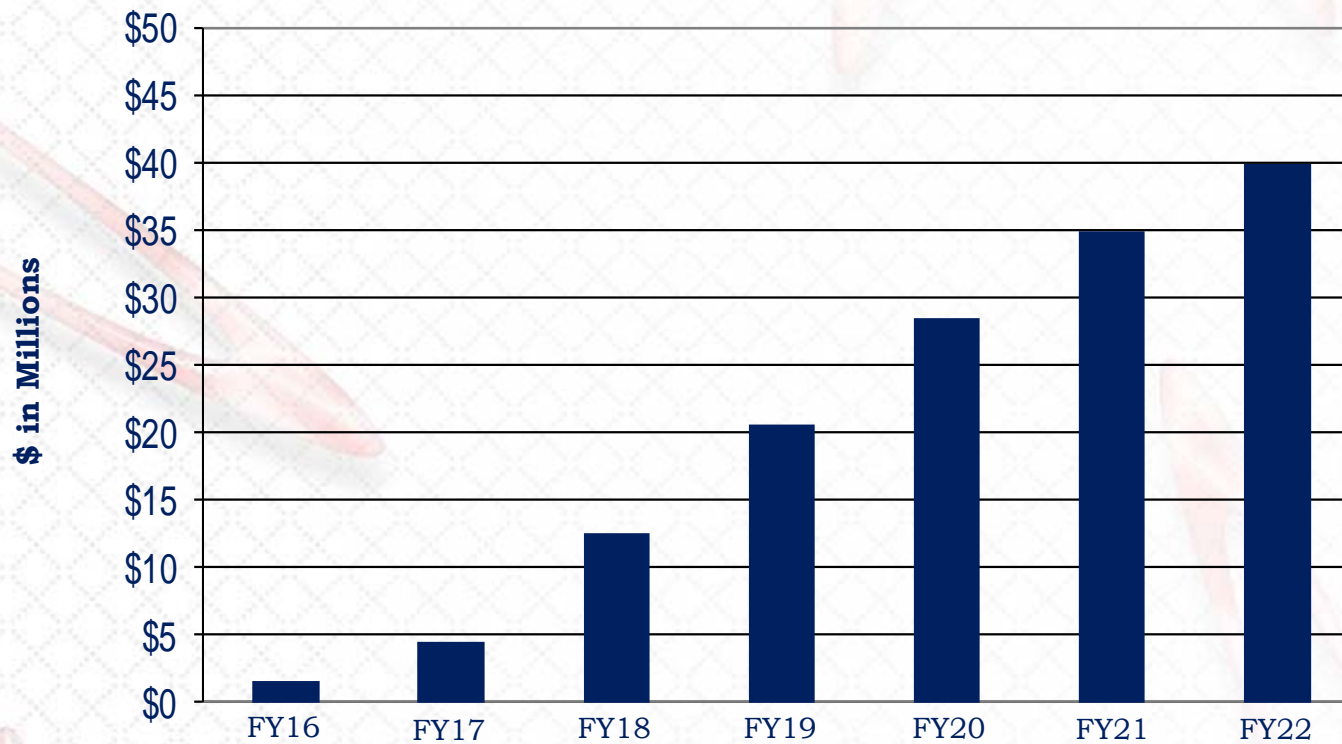
## FY14 General Fund Budget

### A Look to the Future – Property Tax Reform

### State Appropriation to Local Governments



# State of Iowa FY14 General Fund Budget A Look to the Future – Education Reform Teach Iowa Scholar Program





## **State of Iowa FY14 General Fund Budget Concerns Noted**

- Potentially underfunds Medicaid by \$31 million
- Salary and benefit cost increases are not funded – 5<sup>th</sup> consecutive year agencies have had to absorb increased costs



## State of Iowa FY14 General Fund Budget Concerns Noted (cont'd.)

**HF 648** makes appropriations from the General Fund for infrastructure-related projects, bond repayments and other one-time purposes:

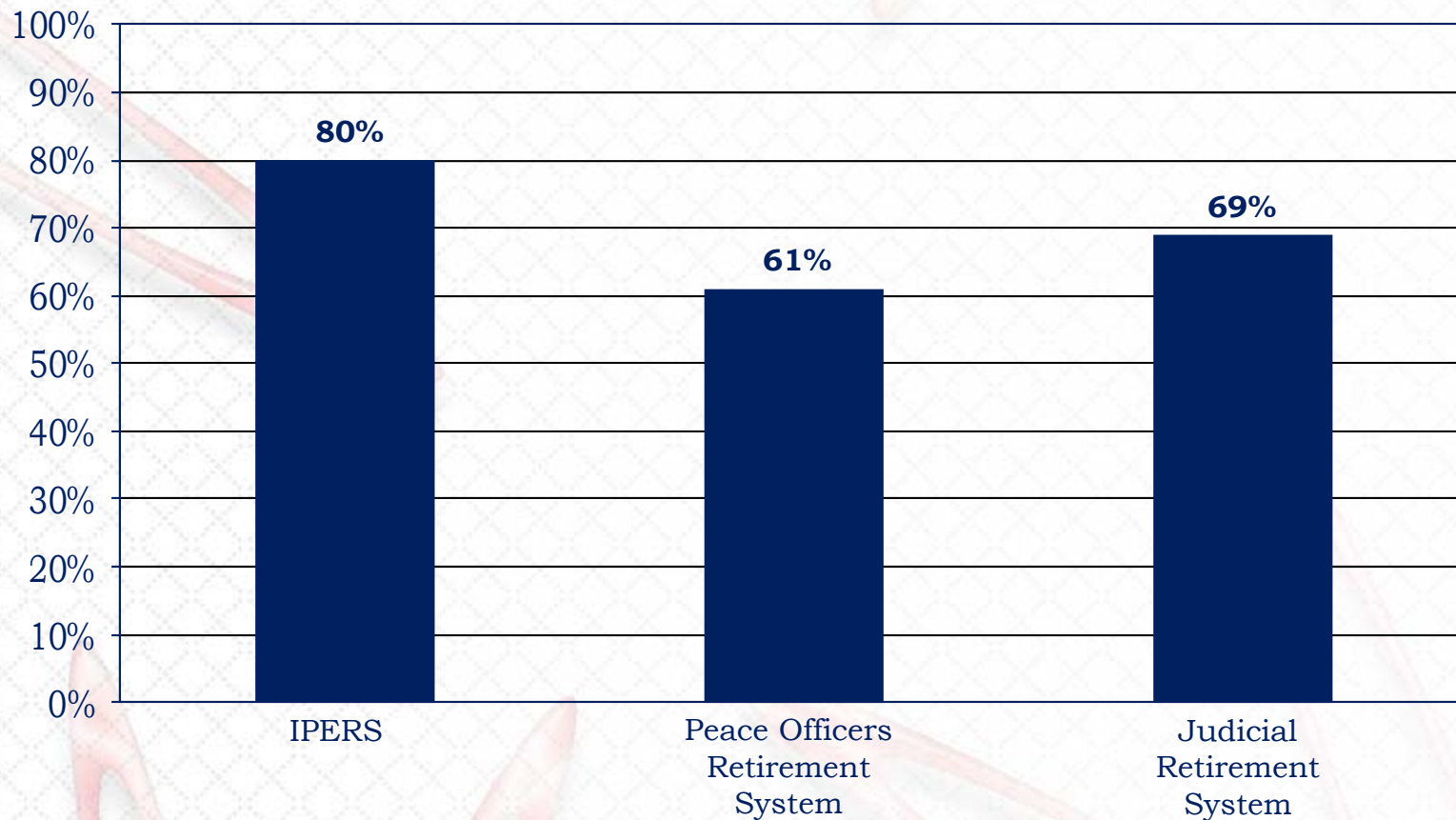
- **Good Budgeting Practice**: Used one-time funds for one-time expenditures.
- **Not a Best Budgeting Practice**: Money is appropriated in FY 2013, but can be spent in future years.
  - Best practice is to spend funds in the same fiscal year they are appropriated.
- **Earmarking**

# **State of Iowa FY14 General Fund Budget Challenges Ahead - Pensions**

**Iowa has three pension systems:**

- **IPERS (Iowa Public Employee Retirement System)**
  - Biggest system
  - \$23+ billion in assets
- **PORS (Peace Officers Retirement System)**
- **Judicial Retirement System**

# State of Iowa FY14 General Fund Budget Challenges Ahead – Pensions State Pension Funding Percentages Fiscal Year 2012





# State of Iowa The Bigger Picture Challenges Ahead – Reliance on Federal Monies (\$ in Billions)

